



COMPTROLLER  
*of* MARYLAND  
*Serving the People*

William Donald Scha  
*Comptre*

David F. Ro  
*Dire.*  
*Bureau of Revenue Estim.*

March 7, 2005

Honorable Robert L. Ehrlich, Jr.  
Governor of Maryland  
State House  
Annapolis, Maryland 21404

Honorable Thomas V. Miller, Jr.  
President of the Senate  
State House  
Annapolis, Maryland 21404

Honorable Michael E. Busch  
Speaker of the House  
State House  
Annapolis, Maryland 21404

Gentlemen:

Section 10-108 of the Tax-General Article of the Annotated Code of Maryland requires that the Comptroller's Office report the impact of changes in federal income tax law on State revenues. On January 7, 2005, President Bush signed into law H.R. 241, which accelerates the income tax benefits for charitable cash contributions for the relief of victims of the Indian Ocean tsunami. Taxpayers may deduct such contributions on their tax year 2004 federal income tax returns rather than wait until tax year 2005 returns are filed in early 2006. This change will flow through to the Maryland income tax calculation; automatic decoupling is not an issue as discussed below.

Articles from the *Chronicle of Philanthropy* indicate private contributions nationwide for tsunami relief of \$163 million (article of January 3) and \$745 million (article of February 10); as there is no comprehensive reporting of private charitable contributions, it is likely that these amounts are understated, perhaps substantially so. Nonetheless, these figures indicate that it is very unlikely that the impact of this federal change on Maryland revenues will be greater than \$5 million. Based on these reports, roughly \$550 million was contributed in the month of January. If these reports are understated by a factor of 100%, \$1.1 billion was actually contributed. If Marylanders made 3% of these contributions (half again as large as Maryland's portion of the United States population), \$33 million came from Maryland. At the individual income tax rate of 4.75%, the revenue loss would be just over \$1.5 million (some of this revenue loss will be from the 7% corporate income tax; in addition, local governments will lose roughly two-thirds of the State revenue loss from the individual income tax).

Maryland income taxes are automatically decoupled from federal law changes for the fiscal year that begins in the calendar year in which the federal changes are made—fiscal year 2006 in this particular instance—if the impact is \$5 million or more. If all of the contributions to tsunami relief were redirected from other charitable donations, the Maryland revenue loss for tax year 2004 (in fiscal year 2005) would be offset by a revenue increase of the same amount for tax

year 2005 (in fiscal year 2006). As demonstrated above, this change is very likely well under the \$5 million threshold. Another factor that further ensures the actual fiscal year 2006 revenue impact is under \$5 million is that some portion of these charitable contributions would not have been made in the absence of this legislation; there will not be an offsetting revenue increase for tax year 2005 (fiscal year 2006) for those contributions.

Please do not hesitate to contact me at (410) 260-7450 if you have any questions about this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Roose", written in a cursive style.

David F. Roose  
Director

cc: Honorable William Donald Schaefer